

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
WILLIAM NEWTON MEMORIAL HOSPITAL
DECEMBER 31, 2018 AND 2017

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WILLIAM NEWTON MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2018 and 2017

Our discussion and analysis of the financial performance of William Newton Memorial Hospital (the Hospital) and our blended component unit William Newton Healthcare Foundation, Inc., provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2018 and 2017. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net position increased by \$2,132,500 or 18.2 percent in 2018 and decreased by \$93,290 or 0.8 percent in 2017.

The Hospital reported operating income of \$795,246 in 2018 and operating loss of \$887,717 in 2017.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

WILLIAM NEWTON MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2018 and 2017

Assets, liabilities, and net position

The Hospital's net position as of the end of each of the last three years is summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Cash	\$ 6,967,466	\$ 4,587,835	\$ 5,251,102
Patient accounts receivable, net	5,917,302	5,141,406	5,812,911
Other current assets	<u>1,137,107</u>	<u>1,348,610</u>	<u>933,025</u>
Total current assets	14,021,875	11,077,851	11,997,038
Capital assets, net	14,446,445	14,318,321	13,353,928
Other assets	<u>4,511,088</u>	<u>3,614,299</u>	<u>3,176,991</u>
Total assets	<u>32,979,408</u>	<u>29,010,471</u>	<u>28,527,957</u>
Liabilities			
Current liabilities	(6,289,109)	(3,634,684)	(3,688,699)
Long-term obligations	<u>(2,735,083)</u>	<u>(3,334,906)</u>	<u>(2,935,838)</u>
Total liabilities excluding net pension and OPEB liabilities	<u>(9,024,192)</u>	<u>(6,969,590)</u>	<u>(6,624,537)</u>
Net pension and OPEB liabilities net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	<u>(10,130,858)</u>	<u>(10,349,023)</u>	<u>(10,118,272)</u>
Net position	<u>\$ 13,824,358</u>	<u>\$ 11,691,858</u>	<u>\$ 11,785,148</u>

The cash balances increased by \$2,379,631 in 2018 as compared to 2017 and decreased by \$663,267 in 2017 as compared to 2016. Significant items affecting the change in cash are reported in the cash flow statement. Operating cash flows increased by approximately \$2.4 million in 2018 as compared to 2017, which was due principally to the change in the estimated third-party payor settlements with the Medicare program and the increase in current year operations. The number of days net revenue in net patient accounts receivable represented 58 days in 2018, 55 days in 2017, and 63 days in 2016. Our current ratio, or the ratio of current assets to current liabilities was 2.2, 3.0, and 3.2 for 2018, 2017, and 2016. The decrease in this ratio in 2018 is primarily related to the increase in construction costs payable.

Capital assets increased by \$128,124 in 2018 and increased by \$964,393 in 2017. The change in capital assets will vary based on the timing of replacement in property and equipment and the annual provision for depreciation. During 2018, the Hospital began a significant building renovations project.

We utilize long-term leases or debt to finance major capital expenditures and try to maintain sufficient liquidity in our balance sheet to cover day-to-day operating expenses of the Hospital and to provide flexibility in operating the Hospital. Our ratio of equity to total assets for the past three years was 36, 36, and 38 percent at December 31, 2018, 2017, and 2016, respectively. Total liabilities, excluding the pension and OPEB plans, increased by \$2,054,602 in

WILLIAM NEWTON MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Years ended December 31, 2018 and 2017

2018 as compared to 2017, and increased by \$345,053 in 2017 as compared with 2016. The 2018 increase is due primarily to the commencement of the construction project in 2018. The net pension and OPEB liabilities, net of deferred outflows and inflows related to the pension and OPEB plans decreased by \$218,165 in 2018 as compared to 2017, after increasing by \$230,751 in 2017 as compared to 2016.

Operating results and changes in net position

The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 38,652,314	\$ 35,978,414	\$ 36,276,955
Operating expenses			
Salaries and benefits	19,609,692	18,110,074	18,401,393
Supplies and other	16,124,375	16,093,256	14,390,182
Depreciation	2,341,166	2,432,050	2,412,263
Total operating expenses	<u>38,075,233</u>	<u>36,635,380</u>	<u>35,203,838</u>
Operating income before pension and OPEB adjustments	577,081	(656,966)	1,073,117
Actuarial expense adjustments to pension and OPEB	<u>218,165</u>	<u>(230,751)</u>	<u>5,402</u>
Operating income (loss)	795,246	(887,717)	1,078,519
Other changes in net position	<u>1,337,254</u>	<u>794,427</u>	<u>278,900</u>
Change in net position	<u>\$ 2,132,500</u>	<u>\$ (93,290)</u>	<u>\$ 1,357,419</u>

The first, and most significant, component of the overall change in the Hospital's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The Hospital's operating income prior to the effect of the actuarial pension and OPEB adjustments increased by \$1,234,047 in 2018 and decreased by \$1,730,083 in 2017, both as compared with the prior year. We have segregated the actuarial effect of the pension plan and OPEB adjustments to highlight the impact that these adjustments have on our financial statements.

Total operating revenues increased by 7.4 percent in 2018 as compared to a decrease of 0.8 percent in 2017. Operating revenues are impacted by volume of services provided, payor mix, level of financial assistance and uncompensated care, and expenses as this impacts our revenues associated with cost-reimbursed services. The changes in 2018 and 2017 were impacted by changes in patient volumes.

As a not-for-profit hospital, we serve all patients who come to our Hospital, regardless of ability to pay. During 2018, 2017, and 2016, the Hospital wrote off \$4,542,549, \$4,114,603, and \$3,404,147 in charges related to patients who qualify either for financial assistance under our financial assistance policy or to bad debts. The increase in these net write-offs correlates with the increase in revenue from uninsured patients.

WILLIAM NEWTON MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

Years ended December 31, 2018 and 2017

We receive some relief for the cost of uncompensated care as we qualify for Medicaid disproportionate share payments (DSH) which is designed to reimburse hospitals for the cost of uncompensated care related to both uninsured and Medicaid beneficiaries. Total revenue recognized under the Medicaid DSH program was \$899,227 in 2018, \$863,614 in 2017, and \$881,421 in 2016. These payments are funded by both federal and state funds.

Operating expenses increased by 3.9 percent in 2018 as compared with 2017 and increased by 4.1 percent in 2017 as compared to 2016. Significant changes in operating expenses in 2018 in comparison to 2017 were due to an increase in salaries and benefits of \$1.4 million. The increase is due to increased hours related to an increase in patient volumes as well as increased compensation related to the filling of provider positions which were previously vacant. Significant changes in operating expenses in 2017 in comparison to 2016 were due to an increase in physician recruiting and retention costs of approximately \$680,000, an increase in Emergency Room contract service expense of \$250,000, and an increase in Wound Care contract service expense of \$175,000.

Other changes in net position for the years presented were impacted primarily by the change in interest costs and a change in noncapital grants and contributions.

The focus remains that of maintaining and growing utilization of Hospital services. Although the population living in our primary market area is not anticipated to change dramatically in the future, patient out-migration to other health care markets is a concern as some residents look outside our community for services. Our philosophy is to commit resources to maintain updated facilities and to invest in state of the art technology. We are also committed to offering programs and services that improve patient safety and promote a high level of quality care within the Hospital. Many factors, both internal and external, affect our ability to meet our goals. For example, to maintain or grow hospital utilization, there is a requirement that the community have an adequate number and mix of primary care and specialty physicians. We monitor these numbers and continue to be proactive in the recruitment of physicians to our community.

This financial report is designed to provide a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Administration Office at 1300 East 5th Avenue, Winfield, Kansas 67156.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
William Newton Memorial Hospital

We have audited the accompanying financial statements of William Newton Memorial Hospital as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express our opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity of William Newton Memorial Hospital as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the financial statements, in 2018, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)." Our opinion is not modified with respect to this matter.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the financial statements. These standards also require that the pension and other postemployment information listed in the table of contents be included to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Mac Nelson & Johnson 22c
Topeka, Kansas
June 14, 2019

FINANCIAL STATEMENTS

WILLIAM NEWTON MEMORIAL HOSPITAL

STATEMENTS OF NET POSITION

December 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,967,466	\$ 4,587,835
Patient accounts receivable, net of allowance for doubtful accounts of \$2,523,833 in 2018 and \$2,567,075 in 2017	5,917,302	5,141,406
Other receivables	432,395	
Inventories	390,217	418,838
Prepaid expenses	314,495	178,299
Estimated third-party payor settlements		751,473
Total current assets	<u>14,021,875</u>	<u>11,077,851</u>
ASSETS LIMITED AS TO USE		
Cash restricted under lease agreement	237,200	
Contributions receivable, net	1,244,614	345,000
Investments held by Foundation	1,733,646	1,424,369
	<u>3,215,460</u>	<u>1,769,369</u>
CAPITAL ASSETS, net	<u>14,446,445</u>	<u>14,318,321</u>
OTHER ASSETS	<u>1,295,628</u>	<u>1,844,930</u>
Total assets	<u>32,979,408</u>	<u>29,010,471</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	1,904,830	2,419,451
Other postemployment benefits	66,875	31,016
Total deferred outflows of resources	<u>1,971,705</u>	<u>2,450,467</u>
Total assets and deferred outflows of resources	<u>\$ 34,951,113</u>	<u>\$ 31,460,938</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 805,081	\$ 1,250,732
Accounts payable	982,271	774,135
Construction costs payable	1,788,478	
Salaries, wages, and related withholdings payable	925,628	584,190
Accrued discretionary leave	1,027,651	1,025,627
Estimated third-party payor settlements	760,000	
Total current liabilities	<u>6,289,109</u>	<u>3,634,684</u>
LONG-TERM OBLIGATIONS, net of current maturities	2,735,083	3,334,906
NET PENSION LIABILITY	11,015,025	11,746,106
NET OTHER POSTEMPLOYMENT BENEFIT LIABILITY	471,496	548,574
Total liabilities	<u>20,510,713</u>	<u>19,264,270</u>
DEFERRED INFLOWS OF RESOURCES		
Pension	595,391	492,049
Other postemployment benefits	20,651	12,761
Total deferred inflows of resources	<u>616,042</u>	<u>504,810</u>
NET POSITION		
Invested in capital assets - net of related debt	10,906,281	9,732,683
Restricted		
For lease or operating activities	247,808	3,786
Expendable for capital acquisitions	1,866,988	612,397
Nonexpendable permanent endowments	465,257	463,745
Unrestricted	338,024	879,247
Total net position	<u>13,824,358</u>	<u>11,691,858</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 34,951,113</u>	<u>\$ 31,460,938</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended December 31,

	<u>2018</u>	<u>2017</u>
Operating revenues		
Net patient service revenue	\$ 37,075,426	\$ 34,170,293
Other	<u>1,576,888</u>	<u>1,808,121</u>
Total operating revenues	<u>38,652,314</u>	<u>35,978,414</u>
Operating expenses		
Salaries and wages	15,858,211	14,422,331
Employee benefits	3,751,481	3,687,743
Actuarial adjustments to pension and OPEB expenses	(218,165)	230,751
Supplies and other	16,124,375	16,093,256
Depreciation and amortization	<u>2,341,166</u>	<u>2,432,050</u>
Total operating expenses	<u>37,857,068</u>	<u>36,866,131</u>
Operating income (loss)	<u>795,246</u>	<u>(887,717)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	(35,880)	197,087
Interest expense	(192,100)	(150,043)
Noncapital grants and contributions	143,146	147,934
Other	<u>(44,618)</u>	<u>(38,917)</u>
Total nonoperating revenues (expenses)	<u>(129,452)</u>	<u>156,061</u>
Excess of revenues over (under) expenses before capital grants and contributions	665,794	(731,656)
Capital grants and contributions	<u>1,466,706</u>	<u>638,366</u>
Change in net position	<u>2,132,500</u>	<u>(93,290)</u>
Net position at beginning of year		
As previously reported	12,222,177	12,304,218
Prior period adjustment for change in accounting principle	<u>(530,319)</u>	<u>(519,070)</u>
As restated	<u>11,691,858</u>	<u>11,785,148</u>
Net position at end of year	<u>\$ 13,824,358</u>	<u>\$ 11,691,858</u>

The accompanying notes are an integral part of these statements.

WILLIAM NEWTON MEMORIAL HOSPITAL

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 37,811,003	\$ 33,678,649
Payments to or on behalf of employees	(19,266,230)	(18,046,052)
Payments to suppliers	(15,474,512)	(15,864,539)
Other receipts and payments	<u>1,144,493</u>	<u>2,050,504</u>
Net cash provided by operating activities	<u>4,214,754</u>	<u>1,818,562</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	143,146	147,934
Other	<u>(44,654)</u>	<u>(44,749)</u>
Net cash provided by noncapital financing activities	<u>98,492</u>	<u>103,185</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(670,365)	(1,695,046)
Grants and contributions for capital	567,092	303,366
Proceeds from sale of equipment	36	3,352
Issuance of long-term debt	845,643	870,000
Principal payments on long-term debt	(1,891,117)	(1,860,199)
Payment of capital lease financing costs	(56,107)	
Interest paid	<u>(146,440)</u>	<u>(150,043)</u>
Net cash used by capital and related financing activities	<u>(1,351,258)</u>	<u>(2,528,570)</u>
Cash flows from investing activities		
Change in investments held by Foundation	(479,836)	(275,775)
Investment income received	<u>134,679</u>	<u>219,331</u>
Net cash used by investing activities	<u>(345,157)</u>	<u>(56,444)</u>
Change in cash and cash equivalents	2,616,831	(663,267)
Cash and cash equivalents at beginning of year	<u>4,587,835</u>	<u>5,251,102</u>
Cash and cash equivalents at end of year	<u>\$ 7,204,666</u>	<u>\$ 4,587,835</u>

The accompanying notes are an integral part of these statements.

WILLIAM NEWTON MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Years ended December 31,

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	\$ 6,967,466	\$ 4,587,835
Cash restricted under lease agreement	237,200	
	<u>\$ 7,204,666</u>	<u>\$ 4,587,835</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 795,246	\$ (887,717)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	2,341,166	2,432,050
Provision for bad debts	3,465,568	3,218,056
Changes in		
Patient accounts receivable	(4,241,464)	(2,546,551)
Inventories	28,621	74,592
Prepaid expenses	(136,196)	18,913
Other receivables	(432,395)	242,383
Other assets	549,302	151,223
Accounts payable and accrued expenses	551,598	48,011
Estimated third-party payor settlements	1,511,473	(1,163,149)
Net pension liability, deferred inflows and deferred outflows related to defined benefit pension and OPEB plans	<u>(218,165)</u>	<u>230,751</u>
Net cash provided by operating activities	<u>\$ 4,214,754</u>	<u>\$ 1,818,562</u>
Supplemental schedule of noncash investing and financing activities		
Net change in unrealized gains (losses) on investments	\$ (170,559)	\$ (22,244)
Capital lease obligations incurred		1,764,373

The accompanying notes are an integral part of these statements.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

A summary of the significant accounting policies of William Newton Memorial Hospital (Hospital) consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

William Newton Memorial Hospital (Hospital) is governed by a five-member Board of Trustees appointed by the Commissioners of the City of Winfield, Kansas. The Hospital, which was organized in 1927, is a 25-bed, not-for-profit general hospital located in Winfield, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property.

2. Component unit

William Newton Healthcare Foundation, Inc. (Foundation), is a legally separate not-for-profit corporation established for the purpose of providing financial assistance to the Hospital and assisting the Hospital and others in the recruitment of physicians and other medical health care personnel to locate and practice in Winfield, Kansas. The Foundation is administered by a self-perpetuating Board of Directors, which is appointed by the Hospital, who is the sole voting member of the Foundation. The Hospital includes the Foundation as a component unit in the Hospital's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The financial statements of the Hospital have been prepared on the accrual basis of accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on a percentage of revenue, the aging of its accounts receivable by type of payor, and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

8. Assets limited as to use

Assets limited as to use include assets restricted under lease agreement, investments held by the Foundation, and contributions receivable related to a capital campaign conducted by the Foundation. Investments are reported at fair value. See Note O. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

9. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating gains and losses.

10. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues.

11. Accrued discretionary leave

Employees of the Hospital are entitled to paid time off depending on length of service and whether they are full-time or part-time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all accrued discretionary leave, up to an allowable maximum. The Hospital accrues these benefits as earned.

12. Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

13. Pension and Other Post Employment Benefit (OPEB) plans

The Hospital participates in the Kansas Public Employees Retirement System Plan (KPERS), a cost-sharing multiple-employer defined benefit pension plan. The Hospital also provides long-term disability benefits to its employees through KPERS. The Hospital uses information provided by KPERS to measure the net pension and OPEB liabilities, deferred outflows of resources, and deferred inflows of resources of the KPERS pension and OPEB plans.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

14. Net position

Net position of the Hospital is classified in three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted" is net position whose use has been limited by lenders or donors to a specific time period or purpose either temporarily or permanently. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt," "temporarily restricted," or "restricted."

15. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

16. Financial assistance

The Hospital provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue. The amount of financial assistance provided by the Hospital is disclosed in Note B.

17. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. Management is unaware of any uncertainties in income tax positions. Tax years ending on or after December 31, 2015, are subject to examination by taxing authorities.

18. Subsequent events

Management has reviewed subsequent events through the date of the independent certified public accountant's report, which is the date the financial statements were available to be issued.

19. Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the changes in financial position.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

20. Adoption of accounting pronouncement

In 2018, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" which revised accounting and reporting standards related to postemployment benefits for state and local government entities. Comparative financial statements of prior years have been adjusted to apply this standard retrospectively. An adjustment of \$519,070 applicable to 2016 and prior years has been included in the restated 2017 beginning net position balance of the Hospital to recognize the net position of the liability. This restatement decreased the previously reported change in net position of the Hospital by \$11,249 for the year ended December 31, 2017, as a result of this change.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Physician services except for the rural health clinics, are prospectively paid based on their respective fee schedules. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE B - NET PATIENT SERVICE REVENUE - Continued

A summary of Hospital gross and net patient service revenue for the years ended December 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue	\$80,960,841	\$72,170,856
Deductions from patient service revenue		
Third-party contractual adjustments	(40,194,293)	(34,350,525)
Medicaid DSH payments	899,227	863,614
Other discounts and allowances	(47,800)	(399,048)
Financial assistance	(1,076,981)	(896,548)
Provision for bad debts	(3,465,568)	(3,218,056)
Net patient service revenue	<u>\$37,075,426</u>	<u>\$34,170,293</u>

The Hospital estimates that the cost of providing financial assistance, based on overall cost to charge ratios obtained from the Hospital's cost reports was \$460,000 and \$415,000 for 2018 and 2017, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 40 percent and 7 percent and 40 percent and 6 percent, respectively, of the Hospital's net patient service revenue during 2018 and 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

NOTE C - ASSETS LIMITED AS TO USE

Assets limited as to use, cash restricted under lease agreement, are comprised of a certificate of deposit as required under a financing agreement and are stated at fair value. Assets limited as to use, held by the Foundation, are carried at fair value which is determined based on quoted market prices in active markets. The Foundation carries its interest in the assets held by the community foundation at the value provided by the community foundation. These assets are invested as follows and reported in the statement of net position under the following categories:

		<u>2018</u>	
	<u>Cost</u>	Unrealized gains (losses)	Fair market value
Equity mutual funds	\$ 1,135,729	\$ (111,935)	\$ 1,023,794
Fixed income mutual funds	637,501	(14,627)	622,874
Real estate mutual funds	48,398	(6,812)	41,586
Interest in assets, held by community foundation	<u>45,392</u>		<u>45,392</u>
	<u>\$ 1,867,020</u>	<u>\$ (133,374)</u>	<u>\$ 1,733,646</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE C - ASSETS LIMITED AS TO USE - Continued

		2017	
	Cost	Unrealized gains (losses)	Fair market value
Equity mutual funds	\$ 859,684	\$ 38,502	\$ 898,186
Fixed income mutual funds	448,310	(513)	447,797
Real estate mutual funds	36,989	(804)	36,185
Interest in assets, held by community foundation	42,201		42,201
	<u>\$ 1,387,184</u>	<u>\$ 37,185</u>	<u>\$ 1,424,369</u>

NOTE D - CAPITAL ASSETS

Capital assets consist of the following:

	Balance December 31, 2017	Transfers and additions	Retirements	Balance December 31, 2018
Land	\$ 101,702	\$ -	\$ -	\$ 101,702
Land improvements	670,997			670,997
Buildings	26,234,733	(113,937)	181,019	25,939,777
Equipment	15,863,908	193,729	1,231,780	14,825,857
	<u>42,871,340</u>	<u>79,792</u>	<u>1,412,799</u>	<u>41,538,333</u>
Less accumulated depreciation and amortization				
Land improvements	288,151	28,144		316,295
Buildings	17,604,191	1,120,463	181,019	18,543,635
Equipment	11,115,518	1,192,559	1,231,780	11,076,297
	<u>29,007,860</u>	<u>2,341,166</u>	<u>1,412,799</u>	<u>29,936,227</u>
Projects in progress	454,841	2,389,498		2,844,339
Capital assets, net	<u>\$14,318,321</u>	<u>\$ 128,124</u>	<u>\$ -</u>	<u>\$14,446,445</u>
	Balance December 31, 2016	Transfers and additions	Retirements	Balance December 31, 2017
Land	\$ 101,702	\$ -	\$ -	\$ 101,702
Land improvements	670,997			670,997
Buildings	25,212,151	1,023,782	1,200	26,234,733
Equipment	14,358,037	2,154,876	649,005	15,863,908
	<u>40,342,887</u>	<u>3,178,658</u>	<u>650,205</u>	<u>42,871,340</u>
Less accumulated depreciation and amortization				
Land improvements	258,150	30,001		288,151
Buildings	16,488,349	1,117,042	1,200	17,604,191
Equipment	10,416,540	1,285,007	586,029	11,115,518
	<u>27,163,039</u>	<u>2,432,050</u>	<u>587,229</u>	<u>29,007,860</u>
Projects in progress	174,080	280,761		454,841
Capital assets, net	<u>\$13,353,928</u>	<u>\$ 1,027,369</u>	<u>\$ 62,976</u>	<u>\$14,318,321</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE E - OTHER ASSETS

The Hospital has determined that recruitment of physicians is in the best interest of the Hospital's patients and the community served by the Hospital, and will enhance the Hospital's ability to meet the health care needs of the community's residents. To accomplish this, the Hospital has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in the Hospital's service area. In return, the physicians have agreed to provide professional services for the residents of the Hospital's service area over varying periods up to five years. The financial assistance is rendered in the form of interest-bearing loans from the Hospital. Upon establishment of their practices, principal and accumulated interest on loans are forgiven ratably over the required service periods. If the physician does not establish a medical practice, or if they leave the community prior to completion of the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans, or liquidated damages, if applicable.

NOTE F - LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	<u>2018</u>	<u>2017</u>
2.00% City of Winfield, Kansas General Obligation Temporary Notes, Series 2016-2; issued on December 19, 2016, in the original amount of \$870,000; due in principal payments beginning on December 1, 2017	\$ 445,000	\$ 646,858
Capital lease obligations; interest rates from 1.86% to 9.12%; collateralized by leased equipment with an amortized cost of \$1,194,249 at December 31, 2018	1,338,628	1,840,666
Capital lease obligations; interest rates from 3.40% to 5.59%; collateralized by leased buildings or building improvements with an amortized cost of \$2,034,992 at December 31, 2018	910,893	2,098,114
4.25% Capital lease obligation with bank, collateralized by building improvement renovation project in progress at December 31, 2018	<u>845,643</u>	<u> </u>
	3,540,164	4,585,638
Less current maturities	<u>805,081</u>	<u>1,250,732</u>
Long-term maturities, less current maturities	<u>\$ 2,735,083</u>	<u>\$ 3,334,906</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE F - LONG-TERM OBLIGATIONS - Continued

On July 26, 2018, the Hospital entered into lease purchase agreements with a local bank to fund an extensive building renovations project. The first lease agreement has an available amount of \$2,300,000 and an interest rate of 4.25 percent and will be loaned to the Hospital as building renovation costs are incurred. Once the funds in the first lease agreement are exhausted, the second lease agreement with an available amount of \$6,851,987 and an interest rate of 5.15 percent will be loaned to the Hospital as building renovations costs are incurred. As of December 31, 2018, the Hospital had drawn on the \$2,300,000 lease agreement. The Hospital will make interest only payments during the construction period on these lease agreements. Once the construction project is complete, the Hospital will begin making monthly interest and principal payments in the month following the date of construction completion. The anticipated completion date of the construction project is November 2019.

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Temporary notes</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2017	\$ 3,876,920	\$ -	\$ 3,876,920
Obligations incurred	1,764,373	870,000	2,634,373
Principal payments	<u>(1,702,513)</u>	<u>(223,142)</u>	<u>(1,925,655)</u>
Outstanding at December 31, 2017	3,938,780	646,858	4,585,638
Obligations incurred	845,643		845,643
Principal payments	<u>(1,689,259)</u>	<u>(201,858)</u>	<u>(1,891,117)</u>
Outstanding at December 31, 2018	<u>\$ 3,095,164</u>	<u>\$ 445,000</u>	<u>\$ 3,540,164</u>

Scheduled future debt service payments for temporary notes are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 220,000	\$ 8,900	\$ 228,900
2020	<u>225,000</u>	<u>17,642</u>	<u>242,642</u>
Total	<u>\$ 445,000</u>	<u>\$ 26,542</u>	<u>\$ 471,542</u>

Scheduled annual future minimum lease payments under capital leases are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 585,081	\$ 94,871	\$ 679,952
2020	568,915	76,935	645,850
2021	508,869	61,186	570,055
2022	362,003	47,299	409,302
2023	154,855	39,864	194,719
2024 - 2028	535,932	121,984	657,916
2029 - 2033	335,600	46,095	381,695
2034	<u>43,909</u>	<u>623</u>	<u>44,532</u>
Total	<u>\$ 3,095,164</u>	<u>\$ 488,857</u>	<u>\$ 3,584,021</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE F - LONG-TERM OBLIGATIONS - Continued

Total interest costs are summarized as follows:

	<u>2018</u>	<u>2017</u>
Total interest incurred	\$ 146,440	\$ 150,043
Capital lease issuance costs incurred	56,107	
Interest capitalized	<u>(10,447)</u>	<u> </u>
Interest expense	<u>\$ 192,100</u>	<u>\$ 150,043</u>

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan description

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. Substantially all public employees in Kansas are covered by KPERS. Participation by local political subdivisions and entities is optional, but irrevocable once elected. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on the KPERS website at www.kpers.org or by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Benefits

Benefits are established by statute and may only be changed by the Kansas Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points." Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation for each of the three state-wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

KPERS has three benefit structures and funding depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6 percent of covered salary for all members. The employer rates established by statute at December 31, 2018 and 2017, are 8.39 percent and 8.46 percent, respectively. The Hospital employer contributions to KPERS for the years ended December 31, 2018 and 2017, were \$1,237,921 and \$1,165,638, respectively, equal to the statutory required contributions for each year.

Employer and nonemployer allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2018 and 2017, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2018 and 2017, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2018, the Hospital's proportion was 0.790 percent which was a decrease of .021 percent over from its share at December 31, 2017.

Net pension liability

At December 31, 2018 and 2017, the Hospital reported a liability of \$11,015,025 and \$11,746,106, respectively, for its proportionate share of the net pension liability.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2017 and 2016, which were then rolled forward to June 30, 2018 and 2017, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2017</u>	<u>2016</u>
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary and wage increases	3.50% - 12.00%	3.50% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.75%	7.75%

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2017 and 2016 valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2018, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	47.00 %	6.85 %
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	2.00	(0.25)
Total	<u>100.00 %</u>	

Discount rate

The discount rate used to measure the total pension liability for 2017 and 2016 was 7.75 percent. The State, School, and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

statutory cap. The statutory cap for 2018 was 1.2 percent. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made within the same range as have been made during the past few years.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the pension plan as of June 30, 2018, calculated using the discount rate of 7.75 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% decrease (6.75%)	Current discount rate (7.75%)	1% increase (8.75%)
Hospital's share of net pension liability	\$ 16,155,141	\$ 11,015,025	\$ 6,671,163

Pension expense

For the years ended December 31, 2018 and 2017, the Hospital recognized pension expense of \$1,124,802 and \$1,385,140, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred outflows of resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2018 and 2017, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 39,769	\$ 56,811
Change of assumptions	476,997	632,576
Net difference between projected and actual earnings on pension plan investments	257,676	368,456
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	499,473	772,744
Employer contributions subsequent to the measurement date	<u>630,915</u>	<u>588,864</u>
Total deferred outflows of resources	<u>\$ 1,904,830</u>	<u>\$ 2,419,451</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE G - DEFINED BENEFIT PENSION PLAN - Continued

Deferred inflows of resources		
Differences between expected and actual experience	\$ 312,117	\$ 406,156
Changes of assumptions	53,044	85,893
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	230,230	
Total deferred inflows of resources	<u>\$ 595,391</u>	<u>\$ 492,049</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2018, that will be recognized in pension expense in future years:

Year ended December 31,	Employer contributions subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2019	\$ 630,916	\$ 577,168	\$ 1,208,084
2020		300,809	300,809
2021		(149,104)	(149,104)
2022		(35,356)	(35,356)
2023		(14,994)	(14,994)
	<u>\$ 630,916</u>	<u>\$ 678,523</u>	<u>\$ 1,309,439</u>

NOTE H - OTHER POSTEMPLOYMENT BENEFIT PLAN

Plan description and benefits provided

The Kansas Public Employees Retirement System (KPERS) sponsors a long-term disability program for participating employers (the Plan). Participating employers pay the cost of the long-term disability and life insurance coverage for their members as provided by K.S.A. 74-04927. The Hospital is considered to be participating in a single employer long-term disability plan. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However, because the trust's assets are used to pay employee benefits other than postemployment benefits (OPEB), the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

The monthly long-term disability benefit is 60 percent of the member's monthly compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POST EMPLOYMENT BENEFIT PLAN - Continued

includes Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

The death benefit paid to beneficiaries of disabled members is 150 percent of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the member's previous 12 months of compensation at the time of the past date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

Covered employees

The Hospital has the following employees covered by the Plan as of June 30:

	<u>2017</u>	<u>2016</u>
Inactive employees or beneficiaries		
currently receiving benefit payments	4	5
Active employees	<u>251</u>	<u>264</u>
Total	<u>255</u>	<u>269</u>

Net OPEB liability

At December 31, 2018 and 2017, the Hospital reported a total OPEB liability of \$471,496 and \$548,574, respectively.

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2017 and 2016, which were then rolled forward to June 30, 2018 and 2017, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2017</u>	<u>2016</u>
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary and wage increases	3.50% - 12.00%	3.50% - 10.00%
Discount rate	3.87%	3.58%

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POST EMPLOYMENT BENEFIT PLAN - Continued

In 2017 and 2016, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements are anticipated using Scales MP-2018 and MP-2017 in 2017 and 2016, respectively. Mortality used for the disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2017 and 2016 valuations were based on the results of an actuarial experience study conducted for the period December 31, 2013 through December 31, 2015.

Changes in total OPEB liability

	June 30, 2018	June 30, 2017
Balance at beginning of period	\$ 548,574	\$ 550,086
Changes for the year		
Service cost	48,120	58,290
Interest	18,989	16,461
Changes of economic/demographic gains or losses	(5,282)	
Changes in assumptions of other inputs	(5,155)	(14,231)
Benefit payments	(133,750)	(62,032)
Net changes	(77,078)	(1,512)
Balance at end of period	<u>\$ 471,496</u>	<u>\$ 548,574</u>

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2018, calculated using the discount rate of 3.87 percent, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current rate:

	1% decrease 2.87%	Current discount rate 3.87%	1% increase 4.87%
Total OPEB liability	\$ 488,972	\$ 471,496	\$ 453,700

OPEB expense

For the years ended December 31, 2018 and 2017, the Hospital recognized OPEB expense of \$64,562 and \$73,281, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE H - OTHER POST EMPLOYMENT BENEFIT PLAN - Continued

Deferred outflows of resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources related to the OPEB plan at December 31, 2018 and 2017, are included in the tables below.

	<u>2018</u>	<u>2017</u>
Deferred outflows of resources		
Benefit payments subsequent to the measurement date	\$ 66,875	\$ 31,016
Total deferred outflows of resources	<u>\$ 66,875</u>	<u>\$ 31,016</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 4,737	\$ -
Changes of assumptions	<u>15,914</u>	<u>12,761</u>
Total deferred outflows of resources	<u>\$ 20,651</u>	<u>\$ 12,761</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2018, that will be recognized in OPEB expense in future years:

<u>Year ended December 31,</u>	<u>Benefit payments subsequent to the measurement date</u>	<u>Recognition of net deferred outflows/(inflows) of resources by year</u>	<u>Total</u>
2019	\$ 66,875	\$ (2,547)	\$ 64,328
2020		(2,547)	(2,547)
2021		(2,547)	(2,547)
2022		(2,547)	(2,547)
2023		(2,547)	(2,547)
Therafter		<u>(7,916)</u>	<u>(7,916)</u>
	<u>\$ 66,875</u>	<u>\$ (20,651)</u>	<u>\$ 46,224</u>

NOTE I - OPERATING LEASES

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2018 and 2017 was approximately \$200,000 and \$111,000, respectively.

NOTE J - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE J - RISK MANAGEMENT - Continued

comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by an independent insurance carrier also provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate in any one policy year of \$1,000,000. All coverage is on a claims-made basis. The Hospital renewed this coverage in January 2019 for a one-year term.

The Hospital has entered into a self-insured trust agreement with the Kansas Hospital Association, along with other qualified hospitals in the State of Kansas. The purpose of this trust is to purchase workers' compensation insurance for employees. To the extent the trust would have been unable to meet its claims liabilities, members have, jointly and severally, agreed to pay for all claims. Management has assessed the financial condition of the trust and believes that the trust is sufficiently funded to meet its liabilities as they come due as of December 31, 2018. Management is not aware of any intention by the trust to implement an assessment in the future for past funding shortages.

NOTE K - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Statutes also require that financial institutions pledge securities with a market value equal to total deposits, in excess of F.D.I.C. coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions including repurchase agreements was \$6,928,497 and the bank balance was \$7,792,590 at December 31, 2018.

The bank balance is categorized as follows:

Amount insured by the F.D.I.C., or collateralized with securities held by the Hospital in the Hospital's name	\$ 1,339,451
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipts by an authorized depository other than the pledging financial institution's trust department but not in the Hospital's name)	<u>6,453,139</u>
	<u>\$ 7,792,590</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE L - CONCENTRATION OF CREDIT RISK

The Hospital is located in Winfield, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	28%	27%
Medicaid	9	7
Blue Cross	13	12
Commercial insurance	18	15
Self-pay	<u>32</u>	<u>39</u>
	<u>100%</u>	<u>100%</u>

NOTE M - COMMITMENTS AND CONTINGENCIES

The Hospital sponsors a self-funded Employee Group Benefit Trust (EGBT) for the benefit of its employees. The Hospital deposits funds into the EGBT monthly and pays claims submitted on behalf of its employees. The EGBT purchases reinsurance to cover claims in excess of specific limits. Since the assets of the EGBT are not controlled by the Hospital and are held for the sole benefit of its employees, the assets and related liabilities are not included in the Hospital's financial statements. At December 31, 2018, the EGBT had total assets of \$315,429 with which to pay claims. The EGBT was dissolved as of December 31, 2018. The EGBT is responsible for payment of all claims incurred up to this date. The Hospital is responsible for all employee health insurance claims incurred on or after January 1, 2019.

A summary of outstanding contract commitments for a building renovation project as of December 31, 2018, is as follows:

Total commitment	\$ 8,511,473
Costs incurred to date	<u>(1,997,782)</u>
Remaining commitment	<u>\$ 6,513,691</u>

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE N - RESTRICTED NET ASSETS

When a donor specifies the purpose of a contribution, the contribution and related income is recorded as either temporarily restricted or permanently restricted according to the donor's request. If the Foundation receives a gift that does not specify a restriction, the Foundation records the gift as unrestricted.

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE N - RESTRICTED NET ASSETS - Continued

The Foundation's net assets include permanent endowments, the income from which is to accumulate to enable the Foundation to provide continuing support to the Hospital. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence of donor-imposed restrictions.

The Board of Trustees has interpreted the Kansas Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds. The remaining portion of the donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA.

It is the policy of the board to manage its investments in a prudent manner consistent with good stewardship, yet striving to enhance its return on the available funds. To assist in accomplishing this objective, the board has established an asset allocation policy, engages a professional investment advisor, and monitors the investments and investment returns.

If the fair value of assets associated with donor-restricted funds falls below the level that the donor or UPMIFA requires the Foundation to retain as permanently restricted, such deficiencies are reported in unrestricted net assets. At December 31, 2018, no such deficiencies existed.

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodology used for assets measured at fair value on a recurring basis.

Money market mutual funds, equity, fixed income, real estate, and balanced mutual funds, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The following tables are set forth, by level, the assets measured at fair value on a recurring basis for the Foundation.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 1,023,794	\$ -	\$ -	\$ 1,023,794
Fixed income mutual funds	622,874			622,874
Real estate mutual funds	41,586			41,586
	<u>\$ 1,688,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,688,254</u>

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Equity mutual funds	\$ 898,186	\$ -	\$ -	\$ 898,186
Fixed income mutual funds	447,797			447,797
Real estate mutual funds	36,185			36,185
	<u>\$ 1,382,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,382,168</u>

NOTE P - CONTRIBUTIONS RECEIVABLE

The Foundation has initiated a Capital Campaign to help fund a Hospital building renovations project. These contributions are considered restricted by donor. Promises to give and contributions receivable recognized under the Capital Campaign consist of the following:

	<u>2018</u>	<u>2017</u>
Restricted promises receivable	\$ 1,659,485	\$ 431,274
Less: unamortized discounts and allowance for uncollectible pledges	<u>(414,871)</u>	<u>(86,274)</u>
Net unconditional promises receivable	<u>\$ 1,244,614</u>	<u>\$ 345,000</u>
Amounts due in		
Less than one year	\$ 281,999	\$ 110,398
One to five years	1,171,166	291,667
Six to nine years	<u>206,320</u>	<u>29,209</u>
	<u>\$ 1,659,485</u>	<u>\$ 431,274</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE Q - CONDENSED COMBINING INFORMATION

Condensed financial data for the Hospital and its blended component unit as of and for the year ended December 31, 2018, are presented in the following tables:

Statement of Net Position - 2018				
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Cash and cash equivalents	\$ 6,693,472	\$ 273,994	\$ -	\$ 6,967,466
Other current assets	7,069,353		(14,944)	7,054,409
Contributions receivable, net		1,244,614		1,244,614
Investments held by Foundation		1,733,646		1,733,646
Capital assets, net	14,446,445			14,446,445
Other assets	1,532,828			1,532,828
Total assets	<u>29,742,098</u>	<u>3,252,254</u>	<u>(14,944)</u>	<u>32,979,408</u>
Deferred outflows of resources	<u>1,971,705</u>	<u>-</u>	<u>-</u>	<u>1,971,705</u>
Total assets and deferred outflows of resources	<u>\$ 31,713,803</u>	<u>\$ 3,252,254</u>	<u>\$ (14,944)</u>	<u>\$ 34,951,113</u>
Liabilities				
Current liabilities	\$ 6,289,109	\$ 14,944	\$ (14,944)	\$ 6,289,109
Noncurrent liabilities	14,221,604			14,221,604
Total liabilities	<u>20,510,713</u>	<u>14,944</u>	<u>(14,944)</u>	<u>20,510,713</u>
Deferred inflows of resources	<u>616,042</u>			<u>616,042</u>
Net position				
Invested in capital assets - net of related debt	10,906,281			10,906,281
Restricted				
For lease or operating	237,200	10,608		247,808
For capital acquisition		1,866,988		1,866,988
Nonexpendable permanent endowments		465,257		465,257
Unrestricted	(556,433)	894,457		338,024
Total net position	<u>10,587,048</u>	<u>3,237,310</u>	<u>-</u>	<u>13,824,358</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 31,713,803</u>	<u>\$ 3,252,254</u>	<u>\$ (14,944)</u>	<u>\$ 34,951,113</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE Q - CONDENSED COMBINING INFORMATION - Continued

	Statements of Revenues, Expenses, and Changes in Net Position - 2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenue				
Net patient service revenue	\$ 37,075,426	\$ -	\$ -	\$ 37,075,426
Other revenues	<u>1,576,888</u>	<u>-</u>	<u>-</u>	<u>1,576,888</u>
Total operating revenues	<u>38,652,314</u>	<u>-</u>	<u>-</u>	<u>38,652,314</u>
Operating expenses				
Salaries and wages, employee benefits, and actuarial adjustments to pension and OPEB expenses	19,391,527			19,391,527
Supplies and other	16,124,375			16,124,375
Depreciation and amortization	<u>2,341,166</u>	<u>-</u>	<u>-</u>	<u>2,341,166</u>
Total operating expenses	<u>37,857,068</u>	<u>-</u>	<u>-</u>	<u>37,857,068</u>
Operating income	795,246	-	-	795,246
Nonoperating revenues (expenses)	<u>(82,356)</u>	<u>(286,433)</u>	<u>239,337</u>	<u>(129,452)</u>
Excess of revenues over (under) expenses	712,890	(286,433)	239,337	665,794
Capital grants and contributions	<u>239,337</u>	<u>1,466,706</u>	<u>(239,337)</u>	<u>1,466,706</u>
Change in net position	<u>952,227</u>	<u>1,180,273</u>	<u>-</u>	<u>2,132,500</u>
Net position at beginning of year as previously reported	10,165,140	2,057,037		12,222,177
Prior period adjustment for change in accounting principle	<u>(530,319)</u>	<u>-</u>	<u>-</u>	<u>(530,319)</u>
As restated	<u>9,634,821</u>	<u>2,057,037</u>	<u>-</u>	<u>11,691,858</u>
Ending net position	<u>\$ 10,587,048</u>	<u>\$ 3,237,310</u>	<u>\$ -</u>	<u>\$ 13,824,358</u>

	Statement of Cash Flow - 2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by				
Operating activities	\$ 4,199,810	\$ -	\$ 14,944	\$ 4,214,754
Noncapital financing activities	74,815	(200,716)	224,393	98,492
Capital and related financing activities	(1,679,013)		327,755	(1,351,258)
Investing activities	<u>34,893</u>	<u>187,042</u>	<u>(567,092)</u>	<u>(345,157)</u>
Net change in cash and cash equivalents	2,630,505	(13,674)	-	2,616,831
Cash and cash equivalents at beginning of year	<u>4,300,167</u>	<u>287,668</u>	<u>-</u>	<u>4,587,835</u>
Cash and cash equivalents at end of year	<u>\$ 6,930,672</u>	<u>\$ 273,994</u>	<u>\$ -</u>	<u>\$ 7,204,666</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE Q - CONDENSED COMBINING INFORMATION - Continued

Condensed financial data for the Hospital and its blended component unit as of and for the year ended December 31, 2017, are presented in the following tables:

	Statement of Net Position - 2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Cash and cash equivalents	\$ 4,300,167	\$ 287,668	\$ -	\$ 4,587,835
Other current assets	6,490,016			6,490,016
Contributions receivable, net		345,000		345,000
Investments held by Foundation		1,424,369		1,424,369
Capital assets, net	14,318,321			14,318,321
Other assets	1,844,930			1,844,930
Total assets	<u>26,953,434</u>	<u>2,057,037</u>	<u>-</u>	<u>29,010,471</u>
Deferred outflows of resources	<u>2,450,467</u>	<u>-</u>	<u>-</u>	<u>2,450,467</u>
Total assets and deferred outflows of resources	<u>\$ 29,403,901</u>	<u>\$ 2,057,037</u>	<u>\$ -</u>	<u>\$ 31,460,938</u>
Liabilities				
Current liabilities	\$ 3,634,684	\$ -	\$ -	\$ 3,634,684
Noncurrent liabilities	15,629,586			15,629,586
Total liabilities	<u>19,264,270</u>	<u>-</u>	<u>-</u>	<u>19,264,270</u>
Deferred inflows of resources	<u>504,810</u>			<u>504,810</u>
Net position				
Invested in capital assets - net of related debt	9,732,683			9,732,683
Restricted				
For lease or operating activities		3,786		3,786
For capital acquisition		612,397		612,397
Nonexpendable permanent endowments		463,745		463,745
Unrestricted	<u>(97,862)</u>	<u>977,109</u>		<u>879,247</u>
Total net position	<u>9,634,821</u>	<u>2,057,037</u>	<u>-</u>	<u>11,691,858</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 29,403,901</u>	<u>\$ 2,057,037</u>	<u>\$ -</u>	<u>\$ 31,460,938</u>

WILLIAM NEWTON MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE Q - CONDENSED COMBINING INFORMATION - Continued

	Statements of Revenues, Expenses, and Changes in Net Position - 2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenue				
Net patient service revenue	\$ 34,170,293	\$ -	\$ -	\$ 34,170,293
Other revenues	<u>1,808,121</u>			<u>1,808,121</u>
Total operating revenues	<u>35,978,414</u>	<u>-</u>	<u>-</u>	<u>35,978,414</u>
Operating expenses				
Salaries and wages, employee benefits, and actuarial adjustments to pension and OPEB expenses	18,340,825			18,340,825
Supplies and other	16,093,256			16,093,256
Depreciation and amortization	<u>2,432,050</u>			<u>2,432,050</u>
Total operating expenses	<u>36,866,131</u>	<u>-</u>	<u>-</u>	<u>36,866,131</u>
Operating loss	(887,717)	-	-	(887,717)
Nonoperating revenues (expenses)	<u>(15,062)</u>	<u>532,199</u>	<u>(361,076)</u>	<u>156,061</u>
Excess of revenues over (under) expenses	(902,779)	532,199	(361,076)	(731,656)
Capital grants and contributions	<u>277,290</u>		<u>361,076</u>	<u>638,366</u>
Change in net position	<u>(625,489)</u>	<u>532,199</u>	<u>-</u>	<u>(93,290)</u>
Net position at beginning of year as previously reported	10,779,380	1,524,838		12,304,218
Prior period adjustment for change in accounting principle	<u>(519,070)</u>			<u>(519,070)</u>
As restated	<u>10,260,310</u>	<u>1,524,838</u>	<u>-</u>	<u>11,785,148</u>
Ending net position	<u>\$ 9,634,821</u>	<u>\$ 2,057,037</u>	<u>\$ -</u>	<u>\$ 11,691,858</u>

	Statement of Cash Flow - 2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by				
Operating activities	\$ 1,818,562	\$ -	\$ -	\$ 1,818,562
Noncapital financing activities	103,857	360,404	(361,076)	103,185
Capital and related financing activities	(2,554,646)		26,076	(2,528,570)
Investing activities	<u>25,292</u>	<u>(416,736)</u>	<u>335,000</u>	<u>(56,444)</u>
Net change in cash and cash equivalents	(606,935)	(56,332)	-	(663,267)
Cash and cash equivalents at beginning of year	<u>4,907,102</u>	<u>344,000</u>		<u>5,251,102</u>
Cash and cash equivalents at end of year	<u>\$ 4,300,167</u>	<u>\$ 287,668</u>	<u>\$ -</u>	<u>\$ 4,587,835</u>

REQUIRED SUPPLEMENTARY INFORMATION

WILLIAM NEWTON MEMORIAL HOSPITAL
SCHEDULE OF HOSPITAL'S PROPORTIONATE SHARE OF
THE NET DEFINED PENSION PLAN LIABILITY

December 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hospital's proportion of the net pension liability	0.7903%	0.8109%	0.7873%	0.7764%	0.7474%
Hospital's proportionate share of the net pension liability	\$11,015,025	\$11,746,106	\$12,179,176	\$10,193,989	\$9,198,875
Hospital's covered employee payroll	14,754,723	13,778,222	13,896,008	13,351,842	12,609,706
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	74.65%	85.25%	87.65%	76.35%	72.95%
Plan fiduciary net position as a percentage of the total pension liability	74.22%	72.15%	68.55%	71.98%	72.56%

WILLIAM NEWTON MEMORIAL HOSPITAL
SCHEDULE OF HOSPITAL CONTRIBUTIONS TO
DEFINED PENSION PLAN
December 31,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually required contribution	\$ 1,237,921	\$ 1,165,638	\$ 1,275,654	\$ 1,265,755	\$ 1,114,698	\$ 940,601	\$ 796,346	\$ 714,137	\$ 625,395	\$ 556,332
Contributions in relation to the contractually required contribution	<u>(1,237,921)</u>	<u>(1,165,638)</u>	<u>(1,275,654)</u>	<u>(1,265,755)</u>	<u>(1,114,698)</u>	<u>(940,601)</u>	<u>(796,346)</u>	<u>(714,137)</u>	<u>(625,395)</u>	<u>(556,332)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 14,754,723	\$ 13,778,222	\$ 13,896,008	\$ 13,351,842	\$ 12,609,706	\$ 11,846,360	\$ 10,849,401	\$ 10,595,504	\$ 10,185,586	\$ 10,042,094
Contributions as a percentage of covered-employee payroll	8.39%	8.46%	9.18%	9.48%	8.84%	7.94%	7.34%	6.74%	6.14%	5.54%

WILLIAM NEWTON MEMORIAL HOSPITAL
SCHEDULE OF CHANGES IN
TOTAL OPEB LIABILITY AND RELATED RATIOS
December 31,

	<u>2018</u>	<u>2017</u>
Service cost	\$ 48,120	\$ 58,290
Interest on total OPEB liability	18,989	16,461
Changes in benefit terms	(5,282)	
Effect of assumption changes or inputs	(5,155)	(14,231)
Benefit payments	<u>(133,750)</u>	<u>(62,032)</u>
Net change in total OPEB liability	<u>(77,078)</u>	<u>(1,512)</u>
Total OPEB liability, beginning	<u>548,574</u>	<u>550,086</u>
Total OPEB liability, ending	<u>\$ 471,496</u>	<u>\$ 548,574</u>
Covered payroll	\$ 13,254,000	\$ 13,973,000
Total OPEB liability as a % of covered payroll	3.56%	3.93%